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Department for Work and Pensions

Reducing losses in the benefits system caused by customers' mistakes

Summary

Introduction

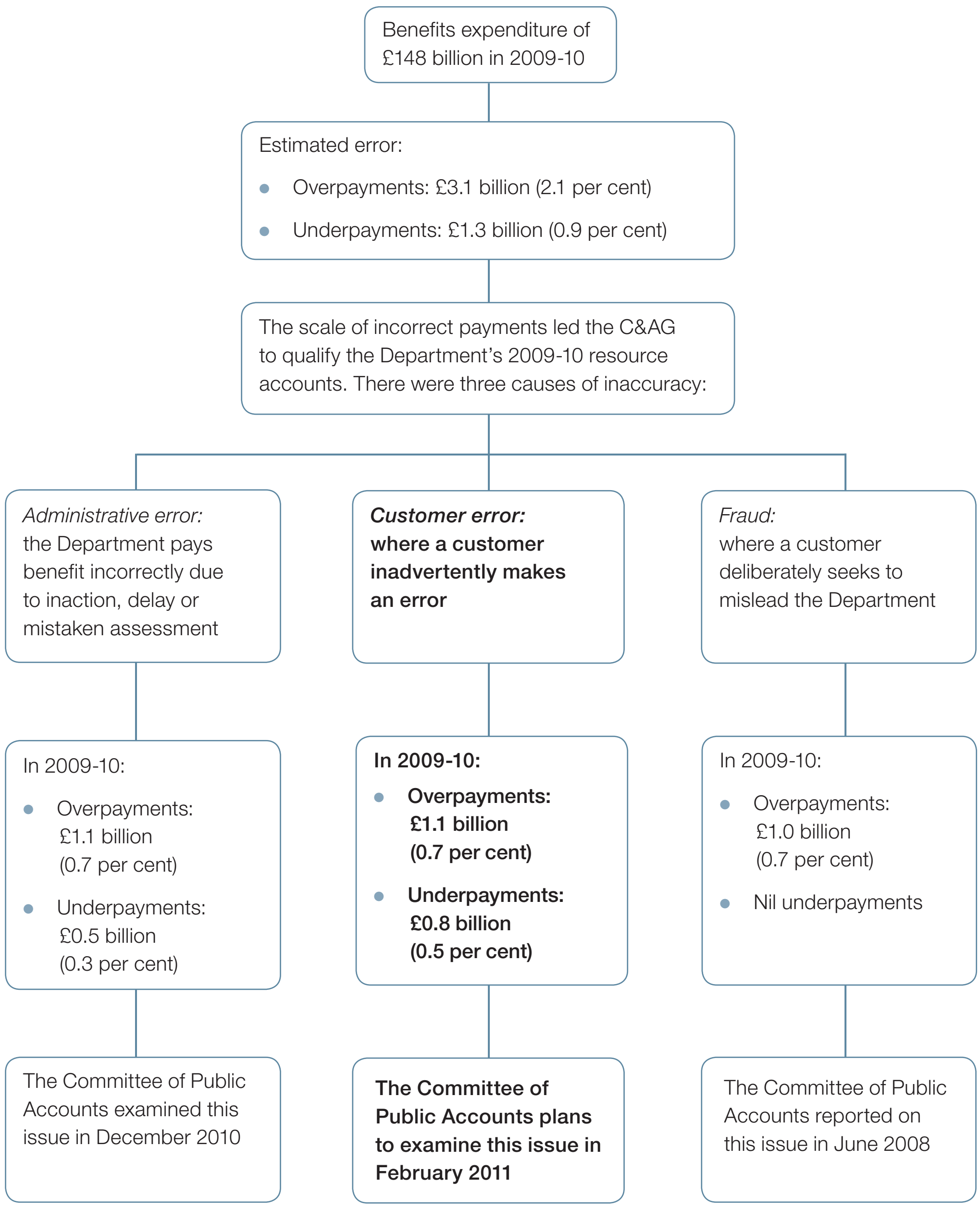
1 The Department for Work and Pensions (the Department) paid £148 billion in benefits to its customers during 2009-10. Seen against the background of a caseload of 20 million people, for each of whom changes in family circumstances and financial conditions can impact on how much individuals are entitled to claim, it is not surprising that mistakes occur or that some people fraudulently claim more than entitled. The Department estimates that due to fraud and errors, it made £3.1 billion overpayments (2.1 per cent of expenditure) and £1.3 billion underpayments (0.9 per cent of expenditure) in 2009-10.[1] The National Audit Office has previously reported on fraud in 2008, and more recently on errors due to administrative error in November 2010 (**Figure 1**).

2 Customers have a responsibility, as a condition of receiving benefit, to provide the Department with accurate and complete information, and to tell the Department promptly about any changes in their personal circumstances that might affect the amount of benefit to which they are entitled. This report focuses on errors arising from mistakes or omissions made by customers that are not considered to have fraudulent intent. Each benefit claim calculation typically depends on the financial status of the claimant, as well as information on their dependents, health and mobility. If a customer does not supply the correct information from the outset, or fails to notify the Department of a subsequent change in their circumstances, the calculation of benefits due may be incorrect.

3 Approximately a third of the cost of overpayments and two-thirds of the value of underpayments in 2009-10 are due to customer error. In total, an estimated £1.1 billion of overpayments and £0.8 billion of underpayments arose in 2009-10 because of mistakes or omissions in the information customers had provided to the Department. Overpayments and underpayments due to customer error represented an estimated 0.7 per cent and 0.5 per cent, respectively, of total benefit expenditure in 2009-10. The rate of error differs between benefits. Customer error has consistently been highest for Housing Benefit, which is administered on the Department's behalf by local authorities, and which in 2009-10 amounted to £420 million overpayments and £220 million underpayments.

1 These estimates are provisional, based on sampling undertaken between October 2008 and September 2009 but applied to 2009-10 benefit expenditure. Final estimates for 2009-10, based on sampling for that year, are expected to be published in early 2011.

Figure 1
This report focuses on overpayments and underpayments due to customer error



NOTES

1 Because of rounding differences total overpayments do not sum to £3.1 billion and percentage underpayments do not sum to 0.9 per cent.

2 Based on sampling undertaken between October 2008 and September 2009.

Source: National Audit Office

4 As the amount of overpayments and underpayments are an estimate (based on statistical analysis of data for the period October 2008 to September 2009), the actual figures are likely to be within a range around the estimate we quote in this report. For brevity we do not normally refer to the range each time we specify an estimated error amount in this report, although we highlight it where there are comparisons of one year against another. The published figures for fraud and error are statistically validated and represent the best estimate currently available.

5 The scale of incorrect payments each year has led the Comptroller and Auditor General to qualify the Department's resource accounts for over 20 years. The Comptroller and Auditor General's report on the Department's resource accounts for 2009-10 nonetheless acknowledged the substantial work undertaken by the Department to reduce fraud and error within the benefits system in recent years.

6 Our report *International benchmark of fraud and error in social security systems* published in July 2006 compared the performance of the Department against that of similar organisations in eight other countries. We found that the Department demonstrated better awareness than many other countries of the level of error, and of what might be done to prevent and correct such mistakes. Direct comparisons of performance are difficult because of the different measurement systems in different countries, but we found that the Department stands out for its attention to customer error and administrative error, as most countries concentrate on fraud.

7 Reducing customer error is made more difficult when there are so many regulations and requirements that need to be understood and followed by the Department's customers. Our report *Minimising the cost of administrative errors in the benefit system* published in November 2010 noted that the complexity in the system is not a new issue, and is largely the result of an accumulation of years of legislative change from successive governments. Simplification can be difficult to achieve without reform of the welfare system. The Government's recent White Paper on the proposed Universal Credit published in November 2010 is an opportunity to simplify many of the regulations. New claims for Universal Credit are expected to be taken on from October 2013. In the meantime the onus remains on the Department to keep the costs of customer mistakes to a minimum within the existing benefits framework.

8 The Department launched a five-year strategy for tackling error in January 2007 which included an emphasis on informing customers of their responsibilities to provide accurate and up to date information. There is no clear evidence whether the strategy led to a significant improvement in performance. There has been no discernible decrease between 2006-07 and 2009-10 in underpayments and overpayments due to customer error as a percentage of total benefits expenditure. The estimated cost of overpayments as a percentage of expenditure was 0.8 per cent in 2006-07 and 0.7 per cent in 2009-10. Because the error rate is estimated from a statistical sample, the difference is not enough to show any trend, either upward or downward. Underpayments have remained at 0.5 per cent over the same period.

9 The Government published a new Department for Work and Pensions and HM Revenue and Customs joint strategy in October 2010, entitled *Tackling fraud and error in the benefit and tax credits systems.* The strategy is based on five key elements: prevention, detection, correction, punishment, and deterrence, and it aims to secure a reduction of over 25 per cent in existing levels of fraud and error. The difference it makes will depend on successful implementation. Our examination has therefore focused on the impact of measures implemented under the 2007 strategy so that the lessons learned can be applied to the new strategy. Accordingly, value for money depends upon:

- sufficient information to understand the reasons why errors occur, in order to target initiatives to best effect;
- regular monitoring of the cost and impact of initiatives so that priorities can be periodically reviewed; and
- timely interventions to limit the extent of any underpayments or overpayments arising from an error.

Key findings

Customer error overpayments can only be recovered from those cases where the individual has been identified and their mistake quantified

10 The total £1.1 billion cost of overpayments due to customer error in 2009-10 is an estimate based on sample testing, whereas overpayments can only be recovered from those cases where the individual has been identified and their mistake quantified. In 2009-10 the Department identified specific overpayments with a cumulative value of £376 million, excluding errors on Housing Benefit, due to customer error. The Department writes off debts up to £65 arising from customer error, but for higher values initiates action to reclaim overpayments made due to customer mistakes. There is inevitably a gap between identified and estimated overpayments. Given the difficulty in identifying and recovering overpayments, it makes sense that the Department focuses on preventing errors from arising in the first place.

11 It is in customers' own interests to avoid mistakes because errors can lead to underpayments and the customer losing money. The estimated £0.8 billion value of underpayments in 2009-10 does not represent a direct cost to the taxpayer, but it does adversely impact on those families affected. We examined a sample of 586 errors in Income Support and Jobseeker's Allowance identified by the Department in 2009-10 arising due to customer error. The average weekly underpayment on Income Support was nearly £24, equivalent to 29 per cent of the average weekly payment. The average underpayment was lower for Jobseeker's Allowance (less than £15), but it still represented approximately 24 per cent of the average weekly claim for this benefit. Legislative restrictions on backdating decisions arising from customer error mean that repayments cannot normally be made in respect of changes notified over a month after the change occurred.

The Department does not yet have a systematic approach to deciding how much effort to devote to customer error

12 We have previously welcomed the Department's drive to reduce fraud and error. Our report in January 2008, *Progress in tackling benefit fraud*, acknowledged that reducing levels of fraud is a key priority for the Department. Similarly, our report in November 2010, *Minimising the costs of administrative errors in the benefit system*, concluded that the Department and its senior officials are clearly committed to reducing the cost of such mistakes.

13 Based on the examples we looked at, we could find little evidence that all relevant parts of the Department had been consulted to assess the potential impact on customer error when the Department had made changes to routine business processes, such as revisions to call centre scripts, standard letters and written guidance. We found no examples where impact assessments carried out in advance of changes to processes or standard forms and letters considered whether the changes would affect customer error.

14 The controls and checks in routine business processes can help reduce error. Processing claims by telephone, for example, allows the Department to prompt customers directly to tell them all relevant information. The Department's two agencies, Jobcentre Plus and the Pension, Disability and Carers Service, have both also initiated additional measures aimed at improving customer service and reducing customer error. Some of these interventions cover fraud and administrative error as well as customer error. We found that Jobcentre Plus had recently rolled out one intervention specifically targeted to identify and correct customer error in Income Support and Jobseeker's Allowance cases. This initiative, which started in June 2010, involves staff contacting customers to check for undeclared changes in their circumstances. Over the next two-to-three years the Department plans to contact the majority of existing customers for these two benefits to ensure they are complying with benefit requirements.

15 The establishment of the Fraud and Error Council and the Fraud and Error Stakeholder Engagement Group similarly demonstrates a commitment to tackle fraud and error in the benefits system. Our examination of the Department's central oversight of activities to tackle fraud and error nonetheless found little evidence that there had been much attention at this level to reducing losses due to customer mistakes prior to the publication of the 2010 strategy. We reviewed the minutes of meetings and the papers considered by the Fraud and Error Council (a group of senior officials established by the Department to oversee progress in tackling fraud and error). The records show that there has been little discussion in the Council about customer error, although this is now changing following the introduction of the 2010 strategy and initiatives to identify the causes of error for each benefit.

16 The Council does receive a 'dashboard' report that provides a brief summary of monthly trends in the value of overpayments due to customer error as well as the values due to administrative error and fraud. The Council has not received data on trends in underpayments or information on other factors (such as customer complaints and queries, analyses of how customers have used the website, or responses triggered by letters or publicity campaigns) that might enable the Council to gauge the Department's progress in tackling customer error and provide advice which helps the Department to focus resources strategically.

As with administrative error, in the absence of sufficient data we could not establish that the Department had consistently targeted its resources and initiatives to best effect

17 The Department's Error Reduction Delivery Board did not have overall oversight of measures to tackle fraud, administrative error and customer error. It received information about individual projects, but did not consider all the initiatives together as a coherent programme. The Fraud and Error Council has instigated a systematic review of each benefit to better understand the causes of error and what action might be taken. The Department expects this to represent a substantial exercise and it is not due to complete until April 2011. This initiative is clearly a step in the right direction.

The nature of customer mistakes

18 Our report on administrative error[2] highlighted the importance of collating and analysing data to identify why errors arise. In April 2010 the Department revised how it records the results of its sample testing but, as before, this process is primarily designed to estimate the level of error, not to diagnose what caused mistakes to occur in the first place. We therefore reviewed the Department's externally commissioned and internal research, and analysed the customer error data it holds to establish why customers make mistakes. The Department's research[3] identified three main issues:

- Customers are generally unaware of rules on capital, investments or redundancy payments, and do not easily understand deductions for non-dependents, especially where non-dependents are making no financial contributions.
- In 2009, 70 per cent of claimants out of a sample size of 1,000 thought they did not have to report short-term changes, and 40 per cent had little or no knowledge of their reporting requirements.
- Many customers believe incorrectly that reporting changes to one local or central government body will result in all relevant parts of the Department being automatically updated.

2 *Minimising the cost of administrative errors in the benefit system.* National Audit Office, 25 November 2010, HC 569, Session 2010-11.

3 *Reporting changes in circumstances: factors affecting the behaviours of benefit claimants.* Department for Work and Pensions, Research Report 544, February 2009.

19 A large percentage of the costs of customer error come from a relatively small proportion of claimants. Commercial organisations rely on risk assessments to identify patterns or trends and such an approach could be applicable to the benefits system. The Department introduced a risk assessment for Housing Benefit in 2003. It revised risk scores for Housing Benefit in 2008 and introduced a similar assessment for Income Support in 2010 with the aim of identifying those customers more likely to make a mistake during their claim. The Department evaluated the impact of the Housing Benefit risk score model and concluded that it more than doubled the success rate of interventions to reduce fraud and error. The Income Support risk score model is being evaluated. The Department has not yet extended this analysis to other benefits, so currently lacks the information to establish whether there are common patterns or similarities that would enable it to target possible interventions more effectively across all benefits.

20 The 2010 fraud and error strategy sets out the Department's intention to establish an integrated risk and intelligence unit in 2013. This unit will coordinate the collection and analysis for data on fraud, error and debt. Analysts will use existing data matching techniques and private sector best practice to prevent fraud and error entering the system through targeting high risk cases. Although the development of the integrated risk and intelligence unit is not very advanced yet, the Department's aim is that once fully operational it will help target resources more effectively.

The progress and impact of ongoing initiatives

21 The 2007 strategy led to a range of initiatives to reduce customer error. There were updates on individual projects, but the Fraud and Error Strategy Division did not consider all the activities planned or under way to tackle customer error until March 2010. The Department then compiled a list that comprised 52 separate initiatives that will impact on customer error, but it included little information on where each activity was targeted, progress made or criteria by which its effectiveness could be judged.

22 Much of the Department's work to tackle customer error is integral to the other duties of staff. In order, however, for the Department to assess the initiatives in its work programme, it requires reliable estimates of the costs involved and the potential benefits. The Department analysed the cost effectiveness of some of its interventions in 2009 and it reported a positive net return on each activity, but the costs were not measured on a complete or consistent basis. We were unable to establish all associated overheads, such as accommodation, management oversight or amortised IT costs, and for some interventions only direct staff costs were included. Our analysis of the Department's work programme found that it does not have sufficient consistently measured data on the costs and benefits of interventions. The Department told us, however, that it is now looking to compare the costs and benefits of each of its interventions as part of its new benefit review process which it expects to complete by Spring 2011.

23 The Department's Customer Charter includes a commitment to deal with cases quickly and to keep individuals notified of progress. The legislation for each benefit does not specify a time frame for processing applications, but unnecessary delays could leave families in hardship. As the Department is unable to validate all the information on each application form, it requires each customer to confirm that the information they have provided is correct and that they will report any subsequent changes in their circumstances. Without downplaying customers' own responsibilities, the Department's 2010 strategy acknowledges that this approach is too passive as it largely relies on customers notifying them of changes with little or no prompting by officials.

24 As part of the new fraud and error strategy, customers will be required proactively to confirm that their circumstances are correct, and that they will keep them correct, before their claim can continue. Such an approach could increase the strategy's impact in reducing customer error. Making progress will require attention to the same systemic issues which the Department is focusing on in response to previous National Audit Office reports, namely:

- improving the Department's understanding of its customers, their knowledge of the benefits system, and the customer experience;
- having a more developed measurement regime in place in order to know the extent to which actions taken are delivering the desired results; and
- improving knowledge sharing mechanisms to enable sharing of good practice, lessons learnt and to facilitate joint working.

Conclusion on value for money

25 Whereas the Department was able to demonstrate a firm commitment to tackling administrative error, its determination to resolve customer error has been less evidently a priority. Errors arising from customers' mistakes are difficult for the Department to detect, correct and prevent without affecting the quality of the service provided because of the difficulty in keeping up to date with changes in circumstances which can impact on how much individuals are entitled to claim. As things stand, the scale of overpayments leads to substantial unrecovered losses for the taxpayer, while underpayments may cause hardship for individuals, so there is a clear imperative for improvement.

26 We have concluded that the Department does not yet have sufficient evidence to demonstrate value for money across its existing activities to reduce customer error. As we found with the Department's approach to tackling administrative error, the Department lacks the quality of information needed to target initiatives to tackle customer error effectively, and there are insufficient data on the causes of customer error or on the costs and impacts of initiatives necessary for effective programme management. Without this data the Department has been unable to measure the impact of changes to routine business processes, to assess the relative costs and benefits of alternative initiatives targeting customer error, or to be confident that there is the right balance of effort between measures focused on reducing fraud, administrative error and customer error.

Recommendations

27 Our recommendations focus on improving the information available to the Department to make well-informed decisions, including how far to prioritise efforts to reduce customer error, so as to strengthen the Department's capability to implement its new fraud and error strategy.

Because overpayments can only be recovered in those instances where an individual has been identified, reducing losses to the taxpayer also depends on preventing errors occurring in the first place. In order to demonstrate it is putting sufficient resources into preventative work the Department should:

a identify which interventions most successfully address each underlying reason for error to allow the agencies to select the most appropriate response to address the errors; and

b require Jobcentre Plus and the Pension, Disability and Carers Service to explicitly assess the likely impact on customer error risk when planning how they implement changes in the welfare system or introduce changes to routine benefits processing.

The Department does not yet have a systematic approach to deciding how much effort to devote to customer error. The Department should:

c determine the proportion of resources available for fraud and error initiatives that should be directed to customer error in the next financial year;

d translate the 2010 strategy into a coherent action plan by maintaining an accurate schedule of all ongoing and planned initiatives, their cost, timing, expected impact, and accountability for delivering them;

e strengthen the ability of the Fraud and Error Council to give strategic direction to how resources are used to tackle customer error, relative to administrative error and fraud, by providing it with the data it needs to support well-informed decision making. In order to do this the Council will need regular information on key aspects of performance. This information should include, where cost effective, data on the volume and nature of complaints or queries raised by customers, feedback from quality control teams on common issues, or data on the performance of contact centres, as well as robust and timely data on the cost and impact of initiatives; and

f in order to help embed a culture of challenge, include in the formal terms of reference of the Fraud and Error Council the explicit responsibility of members to scrutinise and challenge the effectiveness of activities in reducing customer error, focusing on problem solving and generating learning and sharing best practice.

The Department has insufficient data to be confident it is targeting its resources and initiatives to best effect. The Department should:

g fully cost all existing and planned initiatives to address customer error; and

h establish performance measures quantifying the impact of interventions, so as to assess how they each contribute to reducing customer error.